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Developing machinery
markets abroad

Washington

1926

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DEPARTMENT OF COMMERCE

BUREAU OF FOREIGN AND DOMESTIC COMMERCE

JULIUS KLEIN, Director

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Box 198

DEVELOPING
MACHINERY MARKETS
ABROAD



INDUSTRIAL MACHINERY DIVISION

WASHINGTON
GOVERNMENT PRINTING OFFICE
1926

FOREWORD

Exports of factory, mining, and construction machinery from the United States occupy a unique position in our business world. American machinery is distinguished for its labor-saving features and superior technical position and is in great demand in practically all foreign countries, including those that are usually considered our most serious competitors in this general field. In 1925 these exports totaled nearly \$150,000,000, as compared with a value of \$87,000,000 in 1913—an increase that is considered all the more gratifying because the corresponding exports from Great Britain and Germany have not yet regained the volume of pre-war years.

While Europe continues to absorb a very large volume of such machinery, much larger than in pre-war years, it is also significant that the volume absorbed in Latin America and in Asia is increasing very rapidly. In Australia and Africa there is a strong tendency to establish manufacturing facilities and undertake important engineering construction, with the result that these regions that were formerly considered industrially backward are now developing a certain measure of self-sufficiency and coming to occupy a much more important position in the commerce of the world. This diffusion of manufacture, which has developed since 1914, is to be a permanent factor in world trade and should be carefully noted by our business community.

This bulletin has been prepared by the Industrial Machinery Division to indicate concisely the methods that have been successfully used by a large number of machinery manufacturers in developing their business in foreign countries. The subject has necessarily been treated in a general way and the pamphlet does not include consideration of many special problems which arise from time to time and constantly receive the attention of that division.

JULIUS KLEIN, *Director,*
Bureau of Foreign and Domestic Commerce.

DEVELOPING MACHINERY MARKETS ABROAD

FUNDAMENTAL FACTORS

To a considerable degree the problem of increasing American machinery sales abroad is that of marketing standardized products of superior quality and relatively high price, in competition, if that word is appropriate, with foreign products whose designs frequently do not embody the same excellence, whose materials are not selected with such good judgment, if indeed such materials are obtainable, and whose workmanship is not so good, especially if judged by standards of accuracy and appropriate finish as distinguished from paint and unnecessary polish. It introduces also the problem of advertising, which can be employed effectively in many instances.

No broad campaign for foreign business should be started until the necessary domestic organization has been developed. Instances have been known where firms have actively advertised in foreign countries and later, when confronted with an export order, did not know how to execute it. Such methods are inexcusable and discredit the manufacturer at home and abroad. Export business is good business and worth sustained effort. Some large American firms depend to a very considerable extent upon their foreign markets. Our industrial machinery export trade is becoming of vital interest; it represents the difference between profit and loss in the operation of the average plant.

Export business can be secured on terms that are clean and attractive, but to sell without proper preparation is only to sell trouble. Bungling methods, neglect of foreign customers, in fact all of the long list of export sins, accumulate "bad will" against the day when a serious effort is to be made. Also, these failures create a handicap for other Americans who are at work overseas. Manufacturers should keep out of foreign trade until prepared to handle it properly. These remarks should not be interpreted to mean that foreign trade is especially difficult, for, properly approached by competent people, it is easily handled and clean business. Americans can handle the trade as well as anyone else, as is demonstrated by the volume of our machinery sales abroad.

The volume and distribution of the exports of strictly industrial machinery from the United States are shown in the accompanying table.

UNITED STATES EXPORTS OF INDUSTRIAL MACHINERY

[In thousands of dollars]

Destination	Fiscal years										Calendar years				
	1910	1913	1915	1919	1920	1921	1922	1923	1924	1925					
Canada, Newfoundland, etc.	14,113	30,837	15,449	52,846	63,157	26,966	23,010	22,719	23,207	24,134					
Europe (except Balkans)	14,149	27,683	38,219	100,397	90,731	41,100	100,237	28,427	23,199	45,688					
South America	4,309	7,739	4,457	24,045	28,736	23,181	11,885	14,965	19,247	26,328					
Mexico and Central America	6,412	6,200	2,590	11,144	21,235	23,473	9,609	9,608	11,524	13,005					
West Indies	2,763	4,877	4,013	19,399	38,387	32,780	7,098	10,254	15,701	13,100					
Total Latin America	13,484	18,825	11,060	54,61	88,238	70,334	28,020	34,827	43,472	52,433					
Asia (except Asia Minor)	3,666	4,377	3,777	61,880	65,308	55,569	31,097	22,377	21,826	16,582					
Australasia	2,200	3,560	2,987	5,672	8,044	7,003	4,516	6,476	5,774	6,089					
Africa	1,182	1,390	1,290	5,440	5,440	5,440	1,906	7,039	5,960	1,202					
Other countries	1,132	1,455	1,290	5,440	5,440	5,440	1,906	7,039	5,960	1,202					
Grand total	46,117	87,129	75,284	284,697	234,222	208,708	112,368	127,508	139,334	140,379					
Percent	27.5	21.6	15.1	18.2	27.2	33.7	24.9	28.2	33.2	35.1					
Latin America	28.7	35.9	31.2	19.4	19.5	15.6	26.5	22.4	17.8	16.2					
Asia	28.8	31.9	32.2	28.0	28.0	19.7	20.7	23.0	24.6	30.6					
Europe	2.7	1.8	2.0	1.6	1.6	2.2	1.4	2.1	2.6	2.2					
Australasia	4.4	4.4	4.4	1.6	1.1	1.1	1.1	1.1	1.1	1.1					
Other countries															

NOTE.—The above totals are small when compared with certain other figures that have been published, because only those types of machinery handled by the Industrial Machinery Division have been included, and exclude steam and electric locomotives and other rolling stock, automobile machinery, and other types of machinery. The figures for the years 1910 to 1925 are also considered, such as piping, valves, fittings, packing, belting, electrical wire, and equipment. All but factory, mining, and construction machinery are excluded from the above table.

FOREIGN SALES POLICY

While it is possible to imagine any number of different forms of organization that might be employed in the sale of American machinery in foreign countries, the problem is really very simple, for industrial machinery sold abroad, whether American, European, or of other origin, is usually marketed through the machinery dealers who are established in the various foreign cities and who act as import merchants. Usually the problem of developing an organization abroad consists in establishing and maintaining the best possible contacts with these dealers.

It is important that a definite foreign sales policy be established. This policy may not be the same for the varying conditions of different territories, but in each case it should be definitely decided whether the manufacturer will quote only f. o. b. works, f. a. s. New York (or other port), or c. i. f. destination; whether he will open a branch, send his own salesman, grant an exclusive sales representation, or operate in an open market, etc.

The manufacturer should, of course, thoroughly investigate the responsibilities and obligations involved in each case before selecting the policy he will pursue as the most effective under the circumstances.

In order to insure that equipment is supported by genuinely constructive salesmanship in each territory, manufacturers usually find the most practicable method is to arrange an exclusive sales agreement for each particular market, at the same time arranging to have the distributor employ a sales engineer who has been trained by the manufacturer. Beyond this there are many other plans that may be followed, but they all depend upon the careful selection of the foreign distributor.

SELECTION OF A DISTRIBUTOR ABROAD

Unquestionably the best way to select a representative is to gather all possible information in the United States and then visit the foreign countries to investigate the matter and come to an agreement on the spot. When conditions justify, this should be done, but if attempted it should be done properly. It is a great mistake to think that it is possible to rush into a foreign country and in a short time acquire the necessary information, make a decision, and hurry on. Furthermore, each country has its own peculiarities, so that it is scarcely safe to draw conclusions from one with respect to another. Each constitutes a separate sales problem and deserves a careful and deliberate study.

The trip abroad gives most valuable opportunities for establishing friendly relationships and learning market conditions. When circumstances prevent the executive from making such a trip, sometimes it is wise to send a substitute, if a qualified man is available. In any case, this method of selecting foreign representatives is the most satisfactory, and when the circumstances justify it should be employed.

On the other hand, it is expensive in time and money. Many manufacturers have been able to establish a good series of exclusive sales agreements by correspondence and by negotiating with the

American offices of eligible export firms. Information regarding machinery dealers in the various foreign cities that should be valuable for the above purposes can be obtained from the Bureau of Foreign and Domestic Commerce, Washington, upon application. The bureau has a very good collection of such information covering the entire world. When circumstances make it at all practicable, the best results will be obtained by a personal visit to the bureau, as a great deal of information is collected there regarding the qualifications and limitations of these various dealers which it is not advisable to send through the mails. The commercial library in the Department of Commerce is one of the best in the world.

In addition to the above sources, further information regarding these dealers can be obtained through the American consuls, commercial attachés, and trade commissioners who are maintained in these foreign countries by the Government and who will gladly answer specific requests for information. These reports can be verified and credit information secured through the banks and credit bureaus. In some cases the various manufacturers' associations can assist. Business friends can often be helpful.

Naturally, the idea of granting an exclusive sales agreement is to stimulate the machinery distributor abroad to creative, constructive sales effort, thereby adding to the profits of both manufacturer and dealer. If business is not stimulated, the arrangement is a failure. To make a success a dealer first of all needs to have an organization for and an interest in the sale of machinery, and he must be in a position to cover the entire territory under consideration. He should have his engineering department in the hands of qualified engineers who understand the class of machinery involved and the country in which they are to work.

The matter of covering the territory adequately is very important. Many American business men use the political boundaries, thinking that they mark out the business districts. This is a great, though common, mistake. The fact that a firm has an office in Shanghai is no proof that it can cover properly the Hongkong or the Peking districts. In point of time Peking is as far from Shanghai as Salt Lake City is from New York. Very often a Calcutta dealer is not prepared to cover either Burma or Bombay; a concern in Rio de Janeiro may have no connections in Sao Paulo.

There is, it need scarcely be said, a great difference in firms. To a remarkable degree each develops a bent for a certain kind of trade. Each has its own business methods, its special clientele, and a certain line of work that commands its attention, and it will prove correspondingly more or less valuable in selling a given commodity. For instance, if a firm specializes in machine tools, unless elaborately organized, it will give inferior results in the sale of textile machinery or ice plants. The direction of this bent can often be discerned from a study of the list of the lines it handles (often on file in the Bureau of Foreign and Domestic Commerce). From time to time these firms may discover special opportunities because of which they may want what might be called an "outside line," but the interests of the manufacturer lie with the dealer who will give his line consecutive sales effort.

Similarly, from a list of representations it may be possible to make sure that the candidate does not already represent competing equipment. Representations are sometimes solicited in order that the manufacturer's sales efforts may be throttled.

Under other circumstances a dealer may be so placed as to be peculiarly fitted to market a certain line of machinery. One already well established in the sale of textile machinery would be in a good position to sell humidifying equipment. A dealer who is well established in the sale of pumping machinery would probably be in a position to handle filters and water softeners to advantage. One who has a reputation for selling machine tools would be in a position to market files.

It will ordinarily be possible to collect a good deal of information about a prospective representative not only along the lines already suggested but also with regard to his moral and financial qualifications. It goes without saying that integrity is one of the most important essentials. In any case, no effort should be spared to obtain assurance on such fundamental points.

PLACING A SALESMAN IN THE FOREIGN OFFICE OF THE REPRESENTATIVE

When arranging for the appointment of a representative, the manufacturer should also arrange for such supervision of this dealer as is necessary to protect and promote the interests of the manufacturer. There are many ways by which this can be done. More and more the better merchants and manufacturers are arranging to have a qualified salesman (really sales manager) join the staff of the representative in each important foreign office. The details of the arrangement vary a great deal, but the plan is very effective where circumstances make it practicable, and it overcomes many difficulties. An alternative method is to have this man travel to supervise a number of offices—an arrangement that has been used a good deal in the automobile trade.

If a man is to be sent abroad, extreme care should be exercised in making the selection. "Records of American concerns with interests in Buenos Aires, for instance, show that, of the men sent from the United States during the last few years to that city (one of the most attractive in South America), over 80 per cent returned, or were returned, home inside of 12 months." (Selling in Foreign Markets, p. 288.) A good man can accomplish a great deal. A poor selection is very expensive, not only because of the way the representative spends money, but also in the effect upon the reputation of his company. The man should be one with a fine sense of the better things in life and of demonstrated integrity. "Capitalists, as a rule, do not intrust their interests abroad to persons without character. The character of their representatives abroad is even more important than the character of their representatives at home, because a larger responsibility rests on those who serve them abroad." (American Foreign Trade, p. 296.) "Many American firms make the mistake of thinking that they can establish a permanent business by sending to South America the well-known 'rough-and-ready' type of American salesman, who wears his hat and smokes a cigar in his customer's office, and who has no interest beyond sending in orders.

These men often get an initial order, but the business is apt to end there. The South American does not do business that way." (Wall Street Journal; see also Commerce Reports for August 28, 1922.)

In foreign countries a special representative of a manufacturer occupies a position of real importance, corresponding somewhat to that of a branch-office manager at home, except that he has greater responsibilities. He is in competition with the whole world. He is thrown into intimate contact with all sorts of people and must maintain his position and adequately represent the interests of his principals at all times. He must be equal to any emergency. If anyone makes a mistake, whether in the home office, in the factory, or on the 5,000 or 10,000 mile line to the ultimate buyer, this man must "absorb the shock," rise above all complications, and handle the matter in a creditable way. He is a "business ambassador" and should not be sent unless he knows his business, his line, and is loyal to the interests of his principals, with confidence in their products and organization. Without full confidence satisfactory results can not be secured. Unless the manufacturer has full confidence in the man he should not be selected or sent; unless the man has full confidence in his principals he should decline to go, because in foreign countries he will meet endless difficulties in the day's work. An exchange of letters will require two or three months; cables are very costly and often mutilated. Lost orders, sacrifices in commissions, heat, discomforts, disease, and a thousand other annoyances tend to undermine one's determination, and real stamina will be needed.

The special representative should be intensely American. While this requirement has always existed, it has recently become of increased importance. Although it is unfortunate that nationalism is emphasized abroad, the fact remains that Europeans do so emphasize it that it is not at all uncommon to find men in important positions who look at the matter from a very narrow point of view. The American engineering salesman abroad sells more than an individual machine or even a complete factory. He sells the American way of doing things; his machines will not prove to be a real success unless they are operated in the American way, and the American way differs from the way most familiar to Europeans, natives, and others. Of what value is automatic machinery unless it produces a standardized product? Why have a standardized product unless interchangeability is important? Through quantity production, inventiveness, and clear thinking, American engineering has been raised to a position that is in advance of all others, and it requires men who are thoroughly familiar with these American methods, developments, and ideas to properly represent American goods abroad.

FOREIGN DEALERS AS REPRESENTATIVES

This suggests that it is not usually advisable to grant agencies to foreign firms. Experience shows that it is somewhat dangerous. Entirely apart from those who deliberately act in bad faith, it is very seldom that foreigners sufficiently appreciate the merits of American designs to represent them properly. They do not adequately understand American ideas of economy of labor, speed in

production, standardization of method and product—in short, the work of a production man. Their sales and advertising methods differ from those followed by Americans, making it difficult to link up the foreign-office plans with those of the home office. These remarks apply with peculiar force in English-speaking countries.

In territories where sales are to be made to those unfamiliar with English, good results can sometimes be secured through foreign representation, not because the above remarks do not apply, but because it is difficult to find Americans who are sufficiently familiar with the foreign language and ideas. In Japan a Japanese firm undoubtedly has certain advantages in the appeal it can make to persons of that nationality. In Java the Dutch have a similar advantage. But even under these favorable circumstances it will be found difficult to Americanize the sales campaign. In selling engineering equipment in these markets the salesman sells American ideas as much as he sells American machinery. The outstanding problem in working through these foreign firms will be to convince the ultimate buyer of the superiority of the American method—to arrange for one Japanese to persuade another Japanese to adopt American methods in his shop or to manage so that one Hollander persuades another Hollander to adopt American practices. It is always very desirable to arrange to have the representative employ a good American salesman, preferably one who has been trained in the plant of the manufacturer.

COST OF LIVING ABROAD

From what has been said above it is clear that the man needed abroad is a superior type of sales engineer with a really good commercial instinct, who has moral qualities that will surmount the numerous temptations, and social qualities that will make him persona grata with all the world. Such a man has qualifications considerably above those of the ordinary domestic salesman and can command a good salary at home. His standard of living abroad is necessarily high. If he has children, their education is a very serious problem and is expensive, and if they are to have university training at home (as their father undoubtedly had) much costly traveling is involved. In addition to all this (which deserves a good deal of sympathetic consideration) the man must feel some inducement to keep him abroad. No such man wants to "lose touch" and fossilize abroad, and ordinarily will not be satisfied to remain abroad unless he can show a substantial net saving each year.

COST OF OPENING A BRANCH OFFICE

In view of the cost, only a limited number of manufacturers will feel that they are justified in sending one of their own men abroad to handle their own lines exclusively at the manufacturer's expense. Fewer still will be in a position to open up a branch office.

REPRESENTATION BY DEALERS ABROAD

Because of the costliness of maintaining direct representatives, most American manufacturers of machinery will secure the best results by making an exclusive arrangement with one of the machin-

ery dealers (importing merchants) in each of the more important of the foreign cities, and this appears to be the most successful method followed, not only by American producers but by British, German, Swedish, and other producers also. Even the largest of our manufacturers—firms that export from \$1,000,000 to \$3,000,000 worth of machinery per month, firms that export 60 per cent of their production—have sales arrangements with these machinery importers in the various cities of Europe, Asia, Latin America, etc., and, when necessary, send experts to cooperate with the merchants.

Before leaving the subject of dealers and salesmen abroad, we should refer to those firms that are disinclined to appoint an exclusive representative of any kind anywhere "just on general principles." Unless some special reasons apply, there is usually nothing constructive in such a policy. It is absolutely without method. If the product has high inherent merit it may "sell itself" for a time, the result being a more or less unseemly scramble for the business on the part of the merchants, but no one has any inducement to maintain the market and ultimately it will probably fail from a variety of causes. The best plan is to work through these merchants and as constructively as possible.

HOME ORGANIZATION

VITAL IMPORTANCE OF SOUND METHODS AND HIGH STANDARDS

In domestic business it is necessary to adopt sound business methods. In foreign trade the need is far more urgent. In domestic trade errors can be corrected. It is easy and not expensive for the branch office to write or telegraph in case of trouble. Branch managers can often step on a train in the evening and be at the plant in the morning. The business has the advantage of the verbal message and close contact between factory and user, but in trade with distant foreign countries these methods are not possible. To visit the plant is impracticable; the telephone does not connect, cablegrams are very costly, and letters require, say a month each way. Mistakes are very expensive and must not occur. Substitutions mean trouble and dissatisfaction. No matter how perfect the organization abroad may be, it can accomplish only as much as the home organization makes possible, and for a given standard of performance the foreign department needs to be far more perfectly organized than that for domestic business. The standard established for the foreign department must be set as high as possible. Errors must not get out. Prevention is far better than cure and is also far cheaper.

SUPERVISION OF EXPORT DEPARTMENT

In domestic business the head office must ordinarily take the initiative in matters of policy; it must supervise the whole organization, and it must cooperate with the branches. In foreign business this is all necessary to an even higher degree. "The export business requires perhaps a greater amount of executive oversight than any other portion of your business, if you decide to embark in the export trade, and, if you decide to establish a department for handling

the business, that department should be put in charge of no less an officer than a vice president. If the size of your establishment does not warrant the organization of a separate department for the export trade, the export business should then have the personal attention of the executive head of your business." (Selling in Foreign Markets, p. 21.) A staff should be developed that can be depended upon to handle correspondence and documents with a full realization of their meaning. The routine of shipping, insurance, and customs should be fully understood, as should also the meaning of various terms used on bills of lading, insurance policies, etc.

The division of responsibility between manufacturer, carrier, export merchant, and consignee as involved in oversea trade should be fully appreciated. Weakness in these matters results in discredit abroad, while punctilious attention to them goes a long way toward establishing confidence not only in the manufacturer but also in his products. The foreign customer buys service. The machine offered may be the best conceivable equipment for a given purpose, but it is useless unless it can be put into operation. There are countless difficulties that may arise before it is running in the foreign country. The home organization is expected to overcome these difficulties or, failing that, to be sure that all responsibility for failure lies elsewhere. Business depends upon confidence. Errors, substitutions, alterations, etc., destroy this confidence. On the other hand, if buyers abroad can be made to feel that the organization is thoroughly competent in business as well as engineering matters, a good will is established that is invaluable. Cases are known where business involving millions has been secured at a 25 per cent higher price because the buyer had confidence in the American firm making this quotation and did not have confidence in a company of another nationality offering the lower price.

RELATION OF EXPORT DEPARTMENT TO THE REPRESENTATIVES

The home office should carefully plan to furnish dealers with materials needed in promoting sales. They require a liberal supply of catalogues and advertising matter if they are to do constructive work. For each salesman in each foreign office there should be a complete price list, discount sheet, and set of any confidential sales data issued. If at all practical, representatives should have 60 days' notice of price changes, especially for the larger transactions. Their foreign customer does not like to meet a price advance just at the moment of closing a deal. It goes far toward disturbing his confidence. Whenever a line of machinery involves unusual technicalities a cable code should be provided that will offer facilities for communication on these subjects, having regard to emergencies and unusual transactions as well as to routine matters.

It will also probably be found necessary to consult with the dealers on the subject of advertising. Sometimes a manufacturer can promote his own sales by assisting a dealer to secure control of a line of supplementary equipment. For example, a manufacturer of saws should encourage his agent to sell a complete line of filing-room machinery and supplies.

If a manufacturer takes interest in his representative and establishes close relations with him, it then becomes easy to exercise supervision over these foreign sales. Obviously nothing will be gained by mere interference, but constructive efforts will be appreciated. Close contact will demonstrate the value of a given territory, the reason why orders are secured or business lost, and the needs of the sales organization. Frequently it will be discovered that the dealer needs additional sales data. Ordinarily he is not an expert in every particular line and needs guidance and instruction.

This raises again the question of the sales policy. Manufacturers seem to be guilty of confused thinking on the fundamentals of an arrangement covering their representation. Some seem anxious to receive everything and give nothing. They are anxious to develop a good business abroad, but being unable to do so themselves are unwilling to allow a representative such an opportunity and such protection as are necessary, if constructive methods are to be applied. Pioneering work in the building of business is hard, costly work, and a merchant is not justified in incurring the expense it involves unless he is assured that he will participate in its profits. If a manufacturer wants to develop a territory and expects a representative to do constructive work to that end, he should have a clear understanding on the following points:

1. Are all inquiries from the territory to be referred to the representative?
2. Is the representative to be protected on all quotations that he may ask to be made direct?
3. Is the representative to receive commission on sales made in his territory through others? Will these be paid before the representative requests them?
4. Is he to have full details regarding these sales, so as to derive advertising value from the installations when this may be possible?
5. Are prices quoted to him to equal the lowest domestic price less the cost of domestic sales? (His sales expense corresponds to that of the domestic sales force.)
6. Is a definite amount of product to be allocated to his territory even to the disadvantage of the domestic business in prosperous times?
7. Is he to be allowed an appropriation for advertising comparable to the domestic allowance?
8. How will the home organization cooperate with the agent?
9. How is the sales-promotion work to be supervised?

These questions are only suggestive and offered because experience in foreign countries shows the necessity of clearer thinking and sustained effort along these lines. The energy and activity of the agent can go only as far as the cooperation of the principal allows. In America inquiries from the territory of a branch office are answered through that branch. European manufacturers make it a practice to find out the destination of the goods before quoting and do not quote direct on equipment to go into a representative's territory. Loyal adherence to this policy is being adopted more and more by well-organized firms. Many of the governments of foreign countries have purchasing offices in New York or London. If the representative is expected to advertise among the departments of these governments in foreign countries and personally solicit their business, he is entitled to control prices quoted to the above-mentioned purchasing offices. A clear understanding on the

above points is very necessary, and ordinarily a manufacturer will find that his interests are served best when the first seven of the questions listed above are answered positively, emphatically, and without exception in the affirmative. Similarly the representative should be remembered and protected in those cases where buyers return to America to place orders, as presumably this is more or less the result of his activities.

EXPORT POLICY IN TIMES OF DEPRESSION

There is something far more enduring about these dealer agreements than is usually realized. Many of these contracts are concluded in a somewhat casual manner and treated casually thereafter—a method that is not to be recommended. These agreements, if successful, are lasting. There are many of them that are more than 20 years old and to all appearances are going to live 20 years more. In America for a given line of machinery there are, say, 10 competing manufacturers; sometimes there are many more than 10. Similarly in each of the competing European countries there are other manufacturers. But in the foreign markets the number of really good distributors is small. A manufacturer who has a satisfactory representative has an asset of value. Also, as the years pass a reputation is built. The name of the representative is associated in the minds of the purchasers with that of his principal and the product. The common good will become a real asset.

When conditions develop as they did in 1920-21 and manufacturers find the market gone, their stocks heavy, and "overhead" absorbing all of the profit of the business and more, there is a tendency to be strict with the representative. But it should be realized that the representative is in a worse plight than the manufacturer. His stock, though probably smaller, represents a larger proportion of his working capital. He probably has bank loans outstanding against it. The banks are demanding settlements. Interest rates are higher. Freight, duty, and other charges have been advanced. The cost per unit is very high. The market to be supplied is greatly restricted. His clients have repudiated their contracts. All foresight is wasted because of unsuspected developments. The profits of years are reabsorbed by the business in a very few months. At such times a representative deserves sympathy.

If he asks credit to cover at least a part of the shrinkage of his inventory, consideration should include due allowance for the good work done during a long period of years. The entire future of that market is involved in the decision. It is more than a matter of cooperation. If the representative has overstocked his market, the manufacturer has similarly oversold the same market, and that equipment will hang over that market until it is liquidated. There is no escape. Furthermore, no constructive development can take place through any representative until this liquidation is complete. As a market the territory is demoralized.

Unsympathetic treatment at such time encourages disloyalty. If the dealer abandons the line for products of foreign manufacture, the work of years is destroyed; the old stock still hangs over the market and no other dealer can develop new business.

In dealing with representatives the export department should realize that the businesses of manufacturer and dealer continue to be associated decade after decade, and it should develop constructive plans to correspond with that realization.

SUPERVISION OF REPRESENTATIVES

It has been recommended above that the manufacturer supervise the work of his representatives. This is of great consequence, for otherwise it is not possible for the manufacturer to defend his interests; but, on the other hand, this supervision must not degenerate into mere meddlesomeness. The relation between principal and representative must be thoroughly businesslike. An amusing, if not absurd, situation arises almost invariably when a manufacturer first sees a quotation as issued by his representative. He may feel that his business is being ruined by a greedy and unfaithful representative. Although a seasoned business man, he seems in a panic; his imagination is excited. He makes a rapid mental or penciled calculation of cost, exchange, freight, duty, and is convinced that the price quoted is very high—and almost invariably he is wrong. In the first place, he will always underestimate all of the items he does include, and he will omit many that he either forgets or has never heard about.

For instance, in attempting to check up on the cost of delivering a certain machine to a certain place in Asia it should be remembered that it is very difficult to make these estimates correctly. The application of varying rates for freight, landing, and delivery, with the complication of different lift scales for each, followed by a calculation of the duty, results in an intricate calculation. "Rule of thumb" is very dangerous. But there are other items entering into the problem that even experienced men sometimes omit. Also, there are further considerations that upset the whole analysis; one of the most important of these results in including an "allowance for negotiation" in the quoted price.

This also introduces the subject of secret commissions. Business in Asia, for instance, pays many secret commissions, but it should be remembered that the commissions are not always illegitimate. The oriental peoples do not employ all of the methods we use.

What is needed is intelligent, forceful salesmanship. This cooperation will bring orders to the home factory. The sales policy adopted should allow the representative ample profit. Then he will be interested. If the manufacturer gets his price, it should be satisfactory to both if the volume of sales increases properly.

DIRECT TRADE

One hears a great deal about "direct trade." In America we hear demands for improved banking facilities and the need for more liberal terms in connection with our foreign business. Much of the comment is the result of confused thinking. It has been shown that from the practical viewpoint the ordinary machinery manufacturing corporation, whether American, British, or German, is not in a position to act as a sales organization in foreign countries. It is interesting to analyze the matter a little further. The following outline shows the different functions inherent in placing an Ameri-

can machine abroad, and, no matter what the nature of the organization, if the trade is handled properly some one performs each of these functions and there is a fair cost chargeable to each one of these tasks:

1. Manufacturer: Produces the goods; initiates railway shipment; issues invoices.

2. American distributor: Sells products of manufacturer.

3. Export merchant: Receives goods from railway; initiates ocean shipment; insures shipment; finances shipment; draws draft on importer.

4. Import merchant: Meets the draft; receives the ocean shipment; delivers the goods to the user.

The manufacturer will always perform function 1 and his sales department will usually cover function 2. It is impractical for him to perform function 4. The cost of performing function 3 is, say, 2½ per cent. It should be noted that the demand for "direct trade" is a plea put forth on behalf of the small importer abroad to escape dealing through an export merchant in America. The big houses with branches in this country prefer to do business the other way. If a merchant undertakes "direct trade" he must expand his organization to do the work that would be handled by these export offices—function 3. This work involves responsibility and expense, and if a given manufacturer quotes the same discount to a firm in Bombay that it quotes to the New York branch of a firm in Calcutta, it is really allowing the Bombay house an extra 2½ per cent, provided the manufacturer's organization arranges for ocean shipment and draws the draft—all of which may be all right if it is done consciously, but is all wrong if it is done unconsciously.

Correspondingly, it will be noted that the question of foreign credits and sales terms does not enter the problem if a manufacturer confines his transactions to machinery dealers abroad that maintain offices, or export connections, in the United States. These merchants will usually pay cash against the documents at port of export. The credit question narrows itself down to the credit of the American office during the period of manufacture, perhaps six months, as contrasted with the problem of examining the credit of an unknown foreigner 6,000 miles away, who probably will not relieve the manufacturer of financial responsibility in less than a year. Furthermore, in case of difficulty, the problem of collecting from an American firm in this country is simple as compared with the task of collecting on a repudiated draft in a remote city under alien laws. There is also a situation where it is all right to arrange to deal directly with merchants in foreign cities and extend them terms of, perhaps, draft at 120 days' date, provided the manufacturer does so deliberately and in so doing realizes all that is involved. If done unconsciously, it is wrong. The amount of work and financial responsibility added to the duties of the manufacturer's organization by absorbing the tasks of the exporter (function 3 above) is very considerable.

TERMS OF PAYMENT FOR EXPORTED MACHINERY

Before and since the World War many articles have appeared in the press on the subject of export trade which have given special

emphasis to the matter of the terms that should be granted, and it would appear that, so far as machinery is concerned, a great deal of confusion has arisen. In this way a situation has developed that makes a better understanding desirable.

In the first place, it should be recognized that practically all machinery represents a capital investment, as contrasted with hardware, haberdashery, and other classes of commodities that pass directly into consumption. As good banking makes it necessary for lending institutions to maintain their accounts in liquid form, if possible, it is perfectly obvious that a banker is justified in restricting his loans in so far as they apply to machinery. It will also be recognized that the ordinary machinery manufacturer will not have sufficient capital invested in his business to justify him in tying it up for long periods.

UNBUSINESSLIKE PRACTICES UNNECESSARY

There is nothing about export business that makes it necessary to engage in unbusinesslike practices. Properly handled, export trade in machinery is one of the cleanest and most attractive kinds of business, and should be kept upon a sound basis. It is not a kindness to encourage an oversea buyer to engage in business without sufficient fixed capital, as this arrangement suggests that there would be almost no working capital, and the particular enterprise would be seriously handicapped from its inception. In ordinary cases, therefore, it appears that so far as factory and industrial machinery are concerned, the user should have funds with which to buy before being allowed to sign a contract. This fact in itself suggests that it will not ordinarily be necessary to grant inordinate terms in connection with machinery sales when these transactions represent investments of fixed capital. However, every case must be handled according to the individual circumstances, as generalizations may be very misleading. The conditions applying to a certain transaction may make long terms "good business."

For the sake of simplicity, the above has been so worded as to suggest a transaction executed directly between the machinery manufacturer in this country and a factory owner abroad. But to this extent the above remarks are misleading, because such transactions are unusual. Almost invariably American industrial machinery is sold in foreign countries through machinery dealers residing in the various foreign cities. The question of terms may therefore be complicated somewhat out of regard for the wishes of the machinery dealer as distinguished from the ultimate consumer. Furthermore, equipment for the dealer's stock constitutes a different problem altogether.

When the manufacturer agrees to sell direct to a foreign consumer or dealer, it becomes clear that he accepts very definite responsibilities in addition to those involved when he sells to an export house, and it is suggested that care be exercised in making a decision of this character. It is clear that when the manufacturer sells to the exporter he is not called upon to give unusual terms and will ordinarily be able to secure cash on delivery, thereby placing the business upon a very attractive basis.

Furthermore, comparatively few manufacturers have an export business of sufficient magnitude to justify them in expanding their organization enough to handle quotations direct to buyers in foreign countries, as such an arrangement implies that they will maintain in their organization men qualified to manage the financing of the transaction while the goods are at sea, which will also usually imply that the organization must be able to arrange for ocean freight and marine insurance, consular invoices, packing lists in foreign languages, etc., matters which seem simple at first but run into a great many complications in the end. These are responsibilities which should not be assumed lightly.

CIRCUMSTANCES SHOULD BE STUDIED

There are exceptions to all rules, and a concise statement of the conditions affecting the terms of payment employed in connection with machinery transactions of great variety, involving all countries in the world, is subject to many limitations. The above paragraphs represent an effort to state the situation in its elementary form. There are circumstances when a thoroughly businesslike organization is justified in extending liberal terms to foreign buyers. But notwithstanding such exceptions, the fundamentals outlined above will be found to apply to most of our manufacturers, who should be exceedingly careful to handle their foreign business wisely and restrict their operations to methods that are strictly businesslike, discriminating between transactions that involve the investment of fixed capital and those applying to consumable goods.

OVERSTOCKING LEADS TO DEMORALIZATION

In this latter class will be found machinery stocks carried abroad by foreign dealers. It is undoubtedly to the interest of the manufacturer of standard lines of machinery to have his foreign representative keep on hand a reasonable stock of such equipment as is regularly in demand, in order that buyers may secure prompt delivery, may have the privilege of inspecting the goods before purchase, or may even see the equipment in operation. This method of doing business has some further advantage, and although it is ordinarily desirable that the foreign machinery dealer invest sufficient capital in his enterprise to cover the cost of these stocks, there are also circumstances where it is to the interest of all concerned to allow this dealer a reasonable amount of time before it is necessary to tie up his capital in such equipment.

Such circumstances may prove an exception to the general rule, as stated in the earlier part of this article, but even in these cases the matter should be handled with great discretion, as the dealer should not be encouraged to load up his warehouses with unsalable material. Any stocks so placed should be turned over rapidly; they should be kept down to limits that will not prove embarrassing in times of depression, and it will be remembered that depressions sometimes come very suddenly. Demoralization is certain to result from overstocked markets, and demoralization destroys business. The granting of unusual terms in order to encourage unjustified stock orders is consequently subject to decided limitations.

ROUTINE OF HOME OFFICE

Success in foreign business involves punctilious attention to a large volume of detail work. Every shipment requires a bill of lading, an insurance policy, an invoice, a packing list, and sometimes a certificate of origin, an agency certificate, or other forms of affidavit—all to meet the requirements of manufacturer, railway, exporter, export customs, steamship company, insurance company, bank, importer, customs officials, erecting superintendent, etc.—and a varying number of copies of each of these documents will be needed, according to the country of destination. Omissions and inaccuracies will cause trouble somewhere, usually at destination. Usually, also, they will involve expense. All should have the same mark of identification and the same description, otherwise there may be loss in an insurance or steamship adjustment or a fine in the customhouse.

The packing list should be most carefully prepared to meet the needs of many people. For staple articles, like canned peaches, it is very simple indeed, but for an article like a compound Corliss engine that knocks down into 20 to 40 cases, with endless bolts, nuts, lubricators, etc. (and no two alike), the mater deserves great care. The weights and dimensions of the heavy parts should be shown and the contents of each case so detailed as to properly identify each item at the customs, for insurance purposes, in connection with pilferage claims, and the like. Any one or any number of these cases may be lost through scattered shipments, fire, wreck, jettison at sea, or other cause. While these are exceptional experiences, they do occur, and it is very good policy to be ready at all times to duplicate correctly and interchangeably the contents of any particular case in answer to a cable request. This is not abstract theory. Experiences have occurred when it was most important.

Punctiliousness in all these details is very necessary. Sometime ago an ocean bill of lading was executed to read "several packages of nails." Obviously there was no way for the consignee to protect his interests. There was no way to determine when delivery was complete and no way to be sure that all packages sent by rail actually got on board ship. Such a bill of lading is ridiculous. Similarly, others stamped with clauses relieving the carrier from responsibility for one thing or another are in themselves evidence that something was wrong with the shipment before it started. Barring those instances where it is obviously unreasonable, only clean bills of lading should be sent forward. Correspondence needs similar supervision in order that the recipient abroad may be protected from that endless variety of errors and omissions that creep into all but the most carefully prepared letters. In planning for foreign trade and laying down business policies for the guidance of the export department, manufacturers of machinery will ordinarily find it good policy to confine themselves strictly to the business of manufacturing, leaving the exporting and sales abroad to those who specialize in such work, at the same time building up a home organization that will be entirely competent to handle the manufacturer's part of the transaction.

In those cases where a manufacturer decides to absorb also the task of exporting and undertakes to deal with merchants in foreign ports, engaging in so-called direct trade, it will also be found neces-

sary to develop in the home organization a staff that will perform the work usually handled by the exporter. If attempted, this work should be thoroughly done, tracing the goods until they are actually on board ship and at sea. It is small satisfaction to a buyer abroad to know that his goods have left the factory if he is not also assured that they have left the country. Many instances have occurred in which buyers in foreign countries have found it necessary to take up drafts there for goods that were still on the docks in America. In some instances the goods were lost on the American railways. Such a situation is hard to justify and probably would not occur if the merchant were represented in America by a competent exporting office. The difficulty seems to arise where a manufacturer agrees to quote c. i. f. and then fails to give adequate attention to the details of exporting. It seems to show that the shippers did not have a clear conception of export proceedings and responsibility. Some of the better American firms cable a notification of the name of the ship carrying the particular goods covered by the order. Some of the less dependable firms absolve themselves from all responsibility after the goods have been delivered to the railway.

As a foreign buyer can not have a traffic department in America, it is obvious that in the latter case there is a weak element in the distribution, and no manufacturer should be satisfied with such a system. The manufacturer who is building a reputation and a future can not afford to do business in that way, for it should be remembered that European countries are comparatively small, and it is the practice there to follow up the shipment until it is at sea. Americans must expect to be held fully accountable, and in quoting for delivery outside the United States must, in fact, arrange for such delivery.

The Industrial Machinery Division in the Bureau of Foreign and Domestic Commerce is in a position to cooperate with manufacturers confronted with problems along the lines indicated and will probably be in a position to offer useful suggestions in connection with specific problems. American manufacturers are invited to discuss such problems with the above division by mail, or preferably verbally, by visiting the division in Washington or consulting with its representatives elsewhere as opportunity offers.

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